

FISCAL NOTE

SB 2646 - HB 2957

February 23, 2002

SUMMARY OF BILL:

- Amends the definition of "Business" in TCA 67-6-102(2) related to entities that are subject to sales and use tax.
- Amends the definition of "sale at retail" in TCA 67-6-102(24) relative to items that currently are tax exempt and would become taxable.
- Adds a definition of *service* to TCA 67-6-102 for purposes of imposing sales tax.
- Adds a definition of *medical services* to TCA Title 67, Chapter 6, Part 2. Defines *medical services* as any service obtained at, or through, a hospital, nursing home, or from any health care practitioner required to be licensed under Title 63, except veterinarians, athletic trainers, and electrologists.
- Imposes a 4.25% tax on all services.
- Imposes sales tax on: public pay telephone services, television or radio programs which are broadcast over the airwaves for public consumption, coaxial cable television which is offered for public consumption, private line service, or ATM service, wire transfer or other services provided by any corporation defined as a Financial Institution. Currently by definition, these items are exempt from sales tax.
- Maintains the 6% state sales tax rate and current maximum local option sales tax rate of up to 2.75% on items sold in facilities where professional sports teams play and the tax revenue generated from sales in those venues is used to pay off bond indebtedness.
- Increases the state sales tax rate from 6% to 7%, effective 30 days after the effective date of the act. Lowers the rate to 4.25%, effective July 1, 2002.
- Subjects non-material costs of manufactured homes to the full state tax rate, effective July 1, 2002, which would be 4.25% under provisions of the bill. Currently these items are taxed at one-half of the current state sales tax rate.
- Subjects aviation fuel to the full state tax rate, effective July 1, 2002, which would be 4.25% under provisions of the bill.
- Imposes the full state sales tax rate, effective July 1, 2002, which would be 4.25% under provisions of the bill on electricity and liquefied gas used in production of food, fiber, and horticultural products. Currently these items are taxed at 1.5%.
- Taxes tangible personal property to common carriers at the state tax rate of 4.25%, effective July 1, 2002. Currently these items are taxed at a state rate of 6%.
- Reduces the state tax rate, effective July 1, 2002, from 7.5% to 4.25% on interstate telecommunications services sold to business.
- Imposes the state sales tax, effective July 1, 2002, at the rate of 4.25% on equipment purchased for certain new or expanded headquartered facilities. Currently, this item is taxed at a rate of 0.5%.
- Reduces the state sales tax rate on cable and wireless cable television services, effective July 1, 2002, from 8.25% to 4.25%.
- Imposes state sales tax, effective July 1, 2002, at the rate of 4.25% on the following items which are currently exempt from sales tax:
 - aircraft parts and supplies - property leased to airport authorities

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- motor vehicles sold to armed services personnel
- the sale of human blood or plasma by non-profit 501(c)(3) status organizations
- demonstration or display property which is currently not taxed for the first 120 days
- the transfer between spouses of an automobile when such transfer is the result of a decree of divorce terminating that marriage.
- energy or resource recovery facilities
- rental from films, transcriptions, and recordings
- sales by non-profit organizations at gun shows
- construction machinery transferred between parent and subsidiary corporations
- the sale, at retail, of insulin and any syringe used to dispense insulin
- medical equipment and devices for handicapped persons
- optometrists, opticians, and ophthalmologists
- ostomy products or appliances for use by persons who have had colostomies, ileostomies or urostomies
- sales of oxygen prescribed or recommended for the medical treatment of a human being by a licensed practitioner of the healing arts, and equipment necessary to administer such oxygen
- samples produced by a pharmaceutical plant within the state for future distribution outside of the state or temporarily stored by such pharmaceutical plant within the state for future distribution outside of the state
- prescription drugs distributed free of charge by the manufacturer, including packaging materials and constituent elements and ingredients
- prescription drugs
- Railroad stock - Vessels and barges - Railroad rolling stock
- telephone cooperatives
- vessels and barges - Repairs
- sales of tangible personal property to watershed districts for use and consumption by such districts
- All miscellaneous tax exemptions outlined in TCA 67-6-329.
- Amusement Tax Exemptions.
- Transfers by dealers in personal property of motor vehicles used by common carriers
- Utilities, electric cooperatives and electric membership corporations
- Taxidermists
- Energy for residential use
- Dentists
- Used factory-manufactured structures
- Products sold to or used by structural metal fabricators
- Railroad track materials and locomotive radiators
- Telecommunications services
- Cooperative direct mail advertising
- Helicopters and aircraft used by nonprofit groups for medical transport
- Petroleum products sold to air common carriers for flights outside the United States
- Services rendered between parent corporations and wholly-owned subsidiaries
- Legend drugs used by veterinarians

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- Pharmacies and home health care providers
- Adaptive equipment for motor vehicles provided for disabled veterans
- Design professionals sketches, drawings, and models
- Credit for fire protection sprinkler contractors
- Telecommunications services used by call centers
- Lowers the maximum local option sales tax based on the following schedule:

Local Option Tax as of 01/01/02	On 07/01/02, rate decreases to
2.75%	2.00%
2.50%	1.75%
less than 2.50%	1.50%
- Repeals most state taxes and fees, effective July 1, 2003.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - \$182,336,375 FY01-02
Net Impact- \$1,005,098,738 FY02-03

Increase State Expenditures - \$13,100,000 Recurring
\$7,700,000 One-Time

Increase Local Govt. Revenues - Net Impact - \$347,338,408 FY02-03

Other Fiscal Impact - Repeals most state taxes and fees, effective July 1, 2003 resulting in a net decrease in state revenues of \$8,923,000,000 in FY03-04 and a net decrease in local government revenues of \$347,338,408 in FY03-04.

Estimate assumes:

- a net increase in state revenues in FY 01-02 from increasing the state sales tax rate from 6% to 7%.
- a net increase in state revenues in FY 02-03 resulting from lowering the state sales tax rate to 4.25% and broadening the sales tax base to include services and certain items currently exempt from sales tax. Estimate assumes a 93% compliance factor in collection of sales tax on currently untaxed services.
- an increase in state expenditures of \$13,100,000 on a recurring basis and \$7,700,000 on a one-time basis in the Department of Revenue to implement the provisions of the bill.
- a net increase in local government revenues in FY 02-03 resulting from broadening the sales tax base to include services and certain items currently exempt from sales tax. Estimate assumes a 93% compliance factor in collection of sales tax on currently untaxed services.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director

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